

March 11, 2010

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PUBLIC UTILITIES  
COMMISSION

**HAND DELIVER**

The Honorable Chairman and Members of the  
Hawaii Public Utilities Commission  
465 South King Street  
Kekuanaoa Building, Room 103  
Honolulu, HI 96813  
Attention: Ji Sook Kim, Esq.

RE: Docket No. 2009-0049  
Wai'ola O Moloka'i, Inc. ("WOM") Application for the review and approval of rate  
increases filed on a General Rate Increase Filed on June 29, 2009:  
Statement of Probable Entitlement in Support of Interim Rates

Dear Chairman, Commissioners and Commission Staff:

Pursuant to the Stipulated Regulatory Schedule (Exhibit "A") contained in the Order Approving Proposed Procedural Order, as Modified, filed on November 6, 2009, WOM hereby submits its Statement of Probable Entitlement in Support of Interim Rates ("Statement of Probable Entitlement") which provides WOM's proposed revenue requirements solely for purposes of granting interim rate relief to WOM, pursuant to Hawaii Revised Statutes ("HRS") § 269-16.

**Background**

For purposes of the Commission granting interim rate relief in this proceeding, WOM provides the following:

1. On June 29, 2010, WOM filed its amended general rate case application ("Amended Application") in the subject docket requesting Commission approval to increase its rates, establish a separate power adjustment clause, and increase its reconnection fee, pursuant to HRS § 269-16. WOM's Amended Application included, among other things, the applicable Direct Testimonies, Exhibits, and Workpapers in support of the Amended Application, pursuant to Hawaii Administrative Rules ("HAR") Chapter 6-61.

2. On July 31, 2009, the Commission issued its Order Regarding Completed Amended Application and Other Initial Matters ("Order"), wherein the Commission found (a) that the Amended Application was complete and properly filed under HRS §269-16(f) and HAR § 6-61-88, with a completed application filing date of June 29, 2009; and (b) the parties were instructed to submit a stipulated procedural order consistent with the terms of the Order.<sup>1</sup>

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<sup>1</sup> If no motions to intervene or participate were filed, the parties were required to file a stipulated prehearing order within seven days following the deadline to file such motions. If such motions were filed and the Commission granted intervention or participation to one or more parties, the parties then would be required to submit a stipulated prehearing order within ten days following the Commission's order granting such intervention or participation. See Order at 8.

3. On October 16, 2009, the Commission granted the respective Motions to Intervene filed by the County of Maui ("COM") and Stand for Water ("SFW").<sup>2</sup>

4. Pursuant to the Stipulated Regulatory Schedule (Exhibit "A") contained in the Order Approving Proposed Procedural Order, as Modified, filed on November 6, 2009, the Consumer Advocate and COM submitted extensive, detailed information requests ("IRs") on WOM to obtain information supportive of the parties' investigation of the Amended Application, and WOM provided responses to these IRs. The parties subsequently issued supplemental IRs on WOM, to which WOM provided its responses.

5. On January 13, 2010, the Consumer Advocate filed its Direct Testimony, Exhibits and Workpapers, setting forth its position on WOM's Amended Application. WMA did not file any Direct Testimony. On January 25, 2010, WOM submitted its IRs to the Consumer Advocate, and the Consumer Advocate submitted its responses to WOM on February 1, 2010.

6. On February 10, 2010, WOM filed its Rebuttal Testimony.

7. HRS § 269-16(d) maintains that the Commission make every effort to complete its deliberations and issue a final decision in public utility rate cases within nine months after a completed application has been filed by a utility. If such deliberations are not concluded within the nine-month period, HRS § 269-16(d) requires the Commission to render an interim decision within one month after the expiration of the nine-month period based on what the Commission believes the public utility "is probably entitled" to. The interim rate decision may be postponed for an additional thirty days if the Commission considers the evidentiary hearing incomplete. In this proceeding, the nine-month deadline for the issuance of a final decision regarding matters of this docket is March 29, 2010. Correspondingly, the ten-month deadline for the issuance of an interim rate decision is April 29, 2010. The Commission recently issued a Notice of Hearing indicating that the evidentiary hearing in this proceeding will commence on May 19, 2010.

#### Statement of Probable Entitlement for Interim Rate Purposes

In light of the above, WOM submits the following in support of its Statement of Probable Entitlement:

1. WOM submits that the existing evidentiary record, together with this submittal, is sufficient to grant WOM interim rate relief, pursuant to HRS § 269-16(d), and in that connection, WOM hereby respectfully requests that WOM be granted interim rate relief by no later than the ten-month deadline; i.e., by April 29, 2010.

2. WOM recognizes that, in order for the Commission to grant interim relief, pursuant to HRS § 269-16(d), the Commission must believe that WOM is "probably entitled" to an increase in rates based on the evidentiary record before it.

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<sup>2</sup> Pursuant to Order Dismissing Stand for Water as an Intervenor filed January 27, 2010, the Commission dismissed SFW as an intervenor in this proceeding.

3. WOM submits that, based on the evidentiary record which includes this submittal, WOM is probably entitled to an increase in its rates to the extent provided herein.

4. Without interim relief in this proceeding, WOM will be denied a reasonable opportunity to *earn a fair return on its rate base*.

5. In support of the above, WOM submits and provides the following statements into the record for purposes of obtaining the requested interim rate relief to the extent provided herein:

(a) **Exhibit WOM-R-1** attached hereto provides the revenue requirements and results of operations for the forecast test year ending June 30, 2010 ("Test Year"). This Exhibit WOM-R-1 was attached to WOM's Rebuttal Testimony filed on February 10, 2010, and details the proposed revenues, expenses, average rate base, and the return on rate base separated by (i) the amounts which were included as part of WOM's Amended Application; (ii) the results as set forth in the Consumer Advocate's Direct Testimony; and (iii) the amounts as adjusted following the Consumer Advocate's Direct Testimony.

(b) Following WOM's adjustments and for interim rate purposes pending a final decision by the Commission in this docket, WOM submits that it is appropriate and reasonable to adopt for WOM an average rate base of \$1,416,876 (line 35, column 6), a rate of return on rate base of two percent (2.0%) (line 36, column 6), and a Test Year revenue requirement of \$593,555 (line 6, column 6).

6. WOM believes that an interim increase in revenues of \$469,895<sup>3</sup> over the rates previously approved by the Commission in Docket No. 7122, or an increase of approximately 379.99% over revenues at present rates, is just and reasonable.<sup>4</sup>

7. WOM believes that the Commission should allow WOM to increase its rates, on an interim basis, to such levels as will produce, in the aggregate, \$469,895 in additional revenues for the Test Year. See **Exhibit WOM-R-1** and footnotes 3 and 4.

8. The revenue increase and requirements from which WOM will establish its rates, are established for interim rate purposes based only on what WOM believes that it is entitled to under the probable entitlement standard set forth in HRS § 269-16(d).

9. WOM acknowledges that it will be required to refund to its customers any excess collected in accordance with the interim relief granted by the Commission, together with interest as provided by HRS § 269-16(d), if the final increase approved by the Commission as part of its final decision and order in this proceeding is less than the total interim increase granted by the Commission. WOM also understands and acknowledges that if the final increase approved by the Commission as part of its final decision and order is higher than the total interim increase granted by the Commission, and subject to a Commission determination otherwise, the higher

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<sup>3</sup> \$593,555 (line 6, column 6) less \$123,660 (line 6, column 1).

<sup>4</sup> When calculated against the temporary rates currently in effect, the proposed increase is approximately 105.6%.

The Honorable Chairman and Members of the  
Hawaii Public Utilities Commission  
March 11, 2010  
Page 4

increase approved as part of its final decision and order will only be effective from and/or after the final decision and order and will not be retroactive to the date of the interim increase.

Based on the foregoing, WOM respectfully requests that the Commission issue an interim decision and order by April 29, 2010, granting WOM interim relief consistent with the terms set forth herein and the revenue requirements described in **Exhibit WOM-R-1** attached hereto and above.

Thank you for your consideration. If you have any questions, please do not hesitate to contact the undersigned.

Very truly yours,



Michael H. Lau

Cc: Consumer Advocate  
Jeanette Castagnetti, Esq. (COM)  
Andrew V. Beaman, Esq. (MPL)

# EXHIBIT WOM-R-1

Waiola O Molokai  
Company and Consumer Advocate Comparison  
Test Year Ending June 30, 2010

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	WOM As Filed		WOM At Proposed Rates				Consumer Advocate			
Line #	Present Rates	Temporary Rates	As Filed	Adjustments	Adjustments	Revised	At Present Rates	At Temporary Rates	At Proposed Rates	Difference [9] - [6]
<b>REVENUE</b>										
1	Monthly Customer Charge	\$30,860	\$ 30,860	\$ 148,416	\$265 B	\$ 10,395 O	\$ 159,076	\$31,125	\$31,125	\$130,749 (\$28,327)
2	Water Usage Charge	92,500	257,500	448,375	(46,401) B	31,405 O	433,379	75,832	211,099	322,780 (110,599)
3	Connection Fees									
4	Late Fees	300	300	300	800 B		1,100	1,100	1,100	1,100 0
5										
6	Total Operating Revenues	123,660	288,660	597,091	(45,336)	41,800	593,555	108,057	243,324	454,629 (138,926)
<b>EXPENSES</b>										
7	Labor, PR Tax & Empl Bene	141,449		141,449	(14,204) C		127,245	101,242		101,242 (26,003)
8	Electricity Expense	10,656		10,656	(1,824) D		8,832	7,391		7,391 (1,441)
9		0		0			0			0
10	Cost of Sales	106,926		106,926	(11,248) E		95,680			95,680 0
11		0		0			0			0
12	Materials & Supplies	13,581		13,581			13,581			13,581 0
13	Affiliated Charges	18,000		18,000	(8,340) F		9,660			9,660 0
14	Prof & Outside Services	3,598		3,598	(442) G		3,156			3,156 0
15	Repairs & Maintenance	17,088		17,088	(8,569) H		10,519			10,519 0
16		0		0			0			0
17	Insurance	16,000		16,000			16,000			16,000 0
18	Regulatory Expense	55,000		55,000	48,466 I		103,466			55,000 (48,466)
19	General & Administrative	5,855		5,855			5,855			5,855 30
20	Total O&M Expenses	388,153	0	388,153	5,841	0	393,994	318,114	0	318,114 (75,880)
21	Taxes, Other Than Income	7,896		38,124	(2,668) J	2,460 J	37,916	6,899		29,028 (8,888)
22	Depreciation	136,619		136,619	(3,333) K		133,286	107,490		107,490 (25,796)
23	Income Taxes	(157,968)		8,486	(6,486) L		0			0
24	Diff. due to changing factors									0
25	Total Operating Expenses	374,700	0	569,382	(6,846)	2,460	565,196	432,503	0	454,632 (110,564)
26	Operating Income	(\$251,040)		\$27,709	(\$38,690)	\$39,340	\$28,359	(\$324,446)		(\$3) (\$28,362)
<b>AVERAGE RATE BASE</b>										
27	Plant in Service	\$ 3,363,813		\$ 3,363,813	\$ (30,000) M		\$ 3,333,813	\$ 3,333,813		\$ 3,333,813 0
28	Accumulated Depreciation	(1,907,727)		(1,907,727)	1,667 N		(1,906,061)	(2,055,052)		(2,055,052) (148,992)
29	Net Plant	1,456,086	-	1,456,086	(28,334)	-	1,427,753	1,278,761	-	1,278,761 (148,992)
30										
31	Customer Deposits	(43,710)		(43,710)			(43,710)			(43,710) 0
32	ADIT	(54,950)		(54,950)	54,950 L		0			3,474 3,474
33	HCGETC	(935)		(935)	935 L		0	(15,385)		(15,385) (15,385)
34	Working Capital	32,348		32,348	487 A		32,833	26,509		26,509 (6,324)
35	Average Rate Base	\$ 1,388,837	\$ -	\$ 1,388,837	\$ 28,039	\$ -	\$ 1,416,876	\$ 1,249,649	\$ -	\$ 1,249,649 \$ (167,227)
38	Return on Rate Base	-18.08%		2.00%			2.00%			

Wailoa O Molokai  
Rebuttal Adjustments

Adj #	Description	[ 1 ] Reference #	[ 2 ] Amount	[ 3 ] Total
A	Change in Working Capital at 1/12 of Expense			<u>\$ 487</u>
B	Monthly Customer Charge Revenue		\$ 265	
	Customer Usage Revenue		(46,401)	
	Other Revenue		800	
	Total Adjustment - Temporary Rates			<u>\$ (45,336)</u>
C	Removal of S&W, PR Tax & Benefits			<u>\$ (14,204)</u>
D	Change in Electric Expense			<u>\$ (1,824)</u>
E	Cost of Sales			<u>\$ (11,246)</u>
F	Affiliated Company Charges			<u>\$ (8,340)</u>
G	Professional & Outside Services			<u>\$ (442)</u>
H	Repairs & Maintenance			<u>\$ (6,569)</u>
I	Regulatory Expense			<u>\$ 48,466</u>
J	Taxes Other than Income -- Revenue times 5.885%			
K	Depreciation Expense			<u>\$ (3,333)</u>
L	Income Taxes			<u>\$ (6,486)</u>
L	ADIT			<u>\$ 54,950</u>
L	HCGETC			<u>\$ 935</u>
M	Plant in Service			<u>\$ (30,000)</u>
N	Accumulated Depreciation			<u>\$ 1,667</u>
O	Change in Proposed Rates			
	Monthly Customer Charge	\$ 148,416	24.87%	\$ 10,395
	Usage Charges	448,375	75.13%	31,405
	Total Adjustment	<u>\$ 596,791</u>		<u>\$ 41,800</u>
			<u>\$ 41,800</u>	
	Target Rate of Return		2.00%	